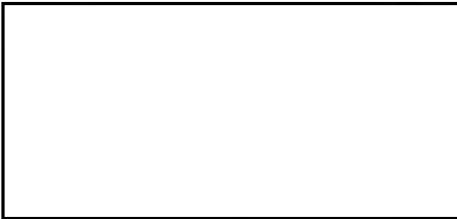


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10 January 1957

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1. PRIME MINISTER EDEN RESIGNS

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[Redacted]

Sir Anthony Eden's resignation offers the opportunity for a new prime minister to restore foreign and domestic confidence in a conservative British government. Eden's belligerent defense of the Suez intervention at a time of mounting troubles in administering gas rationing had brought an increase in popular demands for his departure. Some government leaders may also have felt that efforts to restore relations with Britain's allies and with the Commonwealth were being retarded by Eden's continuance as prime minister.

Either Leader of the House of Commons Butler or Chancellor of the Exchequer Macmillan may be asked to form a new government. The appointment of Butler, who has avoided any responsibility for the Suez intervention, would present a clearer break with the past.

The decision on calling early general elections rests with the new prime minister. In view of the Conservatives' substantial parliamentary majority he will probably decide against elections at this time, when public opinion appears to be turning away from the government.

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5. MASJUMI WITHDRAWAL FROM INDONESIAN CABINET

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[Redacted]

The withdrawal of the Masjumi party from the Indonesian cabinet is a severe blow to Premier Ali's government, but does not necessarily mean its immediate downfall. Although two small Christian

parties are likely to follow the Masjumi's example, the survival of the cabinet will depend on whether the opportunistic Nahdlatul Ulama (NU) adheres to its public commitment to continue support of the present regime.

Ali is favored by the unwavering backing of President Sukarno, who has reiterated his desire to avoid a "cabinet crisis" until the Sumatran problem is settled. The government can also depend on continued Communist assistance. In a parliamentary showdown, Ali can expect to be upheld in a vote of confidence as long as the NU stays in line. Parliament is due to reconvene on 21 January.

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6. MOLLET'S ALGERIAN POLICY

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Premier Mollet's 9 January declaration of French policy on Algeria contains a few minor concessions in anticipation of the UN Algerian debate late this month but will do little to alleviate explosive conditions in Algeria. Its main intent seems to be to hold right-center support in the National Assembly. The only major new element is an invitation for representatives from democratic countries--but not under UN auspices--to observe the elections promised three months after a cease-fire.

On 8 January, Mollet told Ambassador Dillon he feared the French population in Algeria might resort to violence. He warned that a UN resolution condemning French policy could trigger off counterterrorism that might lead to the overthrow of the present regime in France. He said the French delegation would walk out if the General Assembly insists on its competence to discuss the issue, and that France would withdraw permanently from the UN if a resolution condemning French policy were passed.

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8. INFLATION IN SOUTH KOREA MAY RAISE CRITICAL ISSUE FOR US-KOREAN RELATIONS

The Seoul wholesale price index has reached the level which, under the terms of an August 1955 US-Korean agreement, will probably require an upward revision of the hwan-dollar exchange rate at the end of the first quarter of 1957. Any attempt to implement the agreement seems certain to enrage President Rhee and revive the difficulties accompanying this issue. He has indicated that he will resist strenuously any attempt to revise the rate. Rhee is obsessed with the notion that revisions of the exchange rate have been the primary cause of inflation, and that a fixed rate would ensure fiscal stability.

The agreement, which was achieved only after protracted negotiations, calls for a 500-1 rate so long as the index does not rise by more than 25 percent above the September 1955 level. In the week ending 4 January, prices rose 6.9 percent to bring the index to a point 26.3 percent above the base, and prices are continuing to rise. The black market exchange rate exceeds 1000-1.

The American embassy reports that the Ministry of Finance directed the Bank of Korea to withhold the above figures, but that they had already been made public. This suggests that political pressure may be brought to bear on the Bank of Korea to manipulate the future price index.

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